

**REPORT OF THE AUDIT OF THE
GRANT COUNTY
SHERIFF**

**For The Year Ended
December 31, 2005**



**CRIT LUALLEN
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EXECUTIVE SUMMARY
AUDIT EXAMINATION OF THE
GRANT COUNTY SHERIFF

For The Year Ended
December 31, 2005

The Auditor of Public Accounts has completed the Grant County Sheriff's audit for the year ended December 31, 2005. Based upon the audit work performed, the financial statement presents fairly, in all material respects, the revenues, expenditures, and excess fees in conformity with the regulatory basis of accounting.

Financial Condition:

Excess fees decreased by \$2,828 from the prior year, resulting in excess fees of \$560,311 as of December 31, 2005. Revenues decreased by \$458 from the prior year, and expenditures for the Sheriff's salary and training incentive increased by \$2,370.

Report Comments:

- The Sheriff's Office Lacks Adequate Segregation Of Duties
- The Sheriff Should Spend Drug Forfeiture Account Monies For Allowable Purposes Only

Deposits:

On December 1, 2005, \$42,637 of the Grant County Sheriff's deposits of public funds were uninsured and unsecured by bank securities.

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CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Darrell L. Link, Grant County Judge/Executive
Honorable Randy Middleton, Grant County Sheriff
Members of the Grant County Fiscal Court

Independent Auditor's Report

We have audited the accompanying statement of revenues, expenditures, and excess fees - regulatory basis of the Sheriff of Grant County, Kentucky, for the year ended December 31, 2005. This financial statement is the responsibility of the Sheriff. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for County Fee Officials issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the Sheriff's office prepares the financial statement on a regulatory basis of accounting that demonstrates compliance with the laws of Kentucky, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statement referred to above presents fairly, in all material respects, the revenues, expenditures, and excess fees of the Sheriff for the year ended December 31, 2005, in conformity with the regulatory basis of accounting described in Note 1.

In accordance with Government Auditing Standards, we have also issued our report dated May 23, 2006 on our consideration of the Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.



The Honorable Darrell L. Link, Grant County Judge/Executive
Honorable Randy Middleton, Grant County Sheriff
Members of the Grant County Fiscal Court

Based on the results of our audit, we have presented the accompanying comments and recommendations, included herein, which discusses the following report comments:

- The Sheriff's Office Lacks Adequate Segregation Of Duties
- The Sheriff Should Spend Drug Forfeiture Account Monies For Allowable Purposes Only

This report is intended solely for the information and use of the Sheriff and Fiscal Court of Grant County, Kentucky, and the Commonwealth of Kentucky and is not intended to be and should not be used by anyone other than these interested parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", with a long horizontal flourish extending to the right.

Crit Luallen
Auditor of Public Accounts

Audit fieldwork completed -
May 23, 2006

GRANT COUNTY
RANDY MIDDLETON, SHERIFF
STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS

For The Year Ended December 31, 2005

Revenues

Federal Grant - Highway Safety		\$	9,584
State Grants - Overtime/Equipment			21,165
State - Kentucky Law Enforcement Foundation Program Fund			55,715
State Fees For Services:			
Finance and Administration Cabinet	\$	4,151	
Fines and Fees		10,860	
Sheriff Security Service		50,528	
Return of Fugitives		<u>3,015</u>	68,554
Circuit Court Clerk:			
Fines and Fees Collected		1,952	
Circuit Fees		<u>420</u>	2,372
Fiscal Court			75,055
County Clerk - Delinquent Taxes			1,876
Commission On Taxes Collected			280,377
Fees Collected For Services:			
Auto Inspections		12,770	
Accident and Police Reports		835	
Serving Papers		58,750	
Carrying Concealed Deadly Weapon Permits		5,430	
Add-On Fees		<u>38,710</u>	116,495
Other:			
Election Commission		25	
Miscellaneous		<u>3,106</u>	3,131
Interest Earned			<u>1,042</u>
Total Revenues		\$	635,366

The accompanying notes are an integral part of this financial statement.

GRANT COUNTY
 RANDY MIDDLETON, SHERIFF
 STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS
 For The Year Ended December 31, 2005
 (Continued)

Expenditures

Operating Expenditures and Capital Outlay:

Total Expenditures	\$ 0
Net Revenues	635,366
Less: Statutory Maximum	<u>71,861</u>
Excess Fees	563,505
Less: Training Incentive Benefit	<u>3,194</u>
Excess Fees Due County for 2005	560,311
Payments to Fiscal Court - Monthly	<u>560,286</u>
Balance Due Fiscal Court at Completion of Audit	<u>\$ 25</u>

The accompanying notes are an integral part of this financial statement.

GRANT COUNTY
NOTES TO FINANCIAL STATEMENT

December 31, 2005

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

A fee official uses a fund to report on the results of operations. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

A fee official uses a fund for fees to account for activities for which the government desires periodic determination of the excess of revenues over expenditures to facilitate management control, accountability, and compliance with laws.

B. Basis of Accounting

KRS 64.820 directs the fiscal court to collect any amount, including excess fees, due from the Sheriff as determined by the audit. KRS 134.310 requires the Sheriff to settle excess fees with the fiscal court at the time he files his final settlement with the fiscal court.

The financial statement has been prepared on a regulatory basis of accounting, which demonstrates compliance with the laws of Kentucky and is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this regulatory basis of accounting revenues and expenditures are generally recognized when cash is received or disbursed with the exception of accrual of the following items (not all-inclusive) at December 31 that may be included in the excess fees calculation:

- Interest receivable
- Collection on accounts due from others for 2005 services
- Reimbursements for 2005 activities
- Tax commissions due from December tax collections
- Payments due other governmental entities for payroll
- Payments due vendors for goods or services provided in 2005

The measurement focus of a fee official is upon excess fees. Remittance of excess fees is due to the County Treasurer in the subsequent year.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

GRANT COUNTY
 NOTES TO FINANCIAL STATEMENT
 December 31, 2005
 (Continued)

Note 2. Employee Retirement System

The county officials and employees have elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a cost-sharing, multiple-employer, defined benefit pension plan that covers all eligible full-time employees and provides for retirement, disability, and death benefits to plan members.

Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5.0 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 8.48 percent for the first six months and 10.98 percent for the last six months of the year. Hazardous covered employees are required to contribute 8 percent of their salary to the plan. The county's contribution rate for hazardous employees was 22.08 percent for the first six months and 25.01 percent for the last six months of the year.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65. Aspects of benefits for hazardous employees include retirement after 20 years of service or age 55.

Historical trend information pertaining to CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report which is a matter of public record. This report may be obtained by writing the Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, Kentucky 40601-6124, or by telephone at (502) 564-4646.

Note 3. Deposits

The Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the Sheriff's deposits may not be returned. The Sheriff does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 41.240(4). As of December 31, 2005, all deposits were covered by FDIC insurance or a properly executed collateral security agreement. However, as of December 1, 2005, \$42,637 of public funds were exposed to custodial credit risk as follows:

- Uninsured and Unsecured \$42,637

GRANT COUNTY
NOTES TO FINANCIAL STATEMENT
December 31, 2005
(Continued)

Note 4. Drug Forfeiture Accounts

A. Drug Fines and Forfeiture Account

During 2005, the Sheriff's office received proceeds from the confiscation, surrender, or sale of real and personal property involved in drug-related convictions. These funds are to be used for law enforcement activities. As of January 1, 2005, this account had a balance of \$6,014. During 2005, funds of \$3,200 were received and \$8,479 was expended, leaving a balance of \$735 as of December 31, 2005.

B. K-9 Unit Account

During 2005, the Sheriff's office received proceeds from the confiscation, surrender, or sale of real and personal property involved in drug-related convictions as a result of the use of the Grant County Sheriff's K-9 Unit. These funds are to be used for law enforcement activities. As of January 1, 2005, this account had a balance of \$666. During 2005, funds of \$4,130 were received and \$4,045 was expended, leaving a balance of \$751 as of December 31, 2005.

Note 5. Explorer Account

The Grant County Sheriff's Department maintains an account named the "Explorer Account". This is the operating account for the Explorer Scout Post. This account consists of profits resulting from vending machine sales, fund-raising events, and donations. The expenditures from this account are to promote youth law enforcement programs throughout Grant County. As of January 1, 2005, this account had a balance of \$1,352. During 2005, receipts totaled \$5,098 and disbursements totaled \$5,906, leaving a balance of \$544 as of December 31, 2005.

In conjunction with the Explorer Account, in 2004, the Joey Wood Scholarship Fund was established to award a scholarship yearly to an Explorer who best represents what it means to be a law enforcement officer. Proceeds for this fund emanate from donations and contributions. As of January 1, 2005, this fund had a balance of \$636. During 2005, receipts totaled \$643 and disbursements totaled \$250, leaving a balance of \$1,029 as of December 31, 2005.

Note 6. Unrefundable Duplicate Payments And Unexplained Revenues Should Be Escrowed

The Sheriff should deposit any unrefundable duplicate payments and unexplained revenues in an interest-bearing account. The Sheriff has attempted to return overpayments to the taxpayers. According to KRS 393.090, property is presumed abandoned after three years, after which time the funds should be turned over to the Kentucky State Treasurer in accordance with KRS 393.110. For the 1997 taxes, the Sheriff had \$3,426 in unrefundable duplicate payments and unexplained revenues. He had \$1,407 for 1998 taxes, \$510 for 1999 taxes, \$1,971 for 2000 taxes, \$3,533 for 2001 taxes, \$1,278 for 2002 taxes, and \$5,146 for 2003 taxes. Therefore, the Sheriff should send a written report to the Treasury Department and should remit \$12,125 to the Kentucky State Treasurer, which represents all years with the exception of 2003.

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COMMENTS AND RECOMMENDATIONS

GRANT COUNTY
RANDY MIDDLETON, SHERIFF
COMMENTS AND RECOMMENDATIONS

For The Year Ended December 31, 2005

STATE LAWS AND REGULATIONS:

The Sheriff Should Spend Drug Forfeiture Account Monies For Allowable Purposes Only

During our audit, we examined the Drug Forfeiture Account. As a result of our procedures, we have identified a total of \$501 in expenditures that are not considered allowable. In determining allowable expenditures, the Sheriff should follow the same guidelines as he would use for expenditures from his fee account. Technical Audit Bulletin 93-001, Section 3, enumerates 13 categories of expenditures that are not allowable. Additionally, KRS 64.850 prohibits fee officials from expending "public funds for any purpose other than that for which they were received..."

Our testing procedures indicate that the Sheriff made expenditures that are specifically identified in Technical Audit Bulletin 93-001. The following schedule provides a breakdown of the 2005 expenditures from the Drug Forfeiture Account that are not considered allowable:

- Invoices totaling \$81 for late fees and finance charges. "...Penalties for late payments..."
- Invoices totaling \$420 for drinks/meals. "...Gifts, entertainment, or meals unrelated to official business..."

We recommend that the Sheriff expend Drug Forfeiture Account monies, as well as his fee account monies, in accordance with KRS 64.850 and Technical audit Bulletin 93-001. We also recommend that the Sheriff deposit personal funds in the amount of \$501 into the Drug Forfeiture Account in order to reimburse the account for these disallowed expenditures.

Sheriff's Response: I thought we were allowed to do this if we had training.

INTERNAL CONTROL - REPORTABLE CONDITION AND MATERIAL WEAKNESS:

The Sheriff's Office Lacks Adequate Segregation Of Duties

We noted the lack of adequate segregation of duties for the internal control structure and its operation that in our judgment is a reportable condition under standards established by the American Institute of Certified Public Accountants. Due to the entity's diversity of official operations, small size, and budget restrictions, the Grant County Sheriff has limited options for establishing an adequate segregation of duties. We recommend that the following compensating controls be implemented to offset this internal control weakness:

- The Sheriff should periodically compare a bank deposit to the daily checkout sheet and then compare the daily checkout sheet to the receipts ledger.
- The Sheriff should compare the quarterly financial report to receipts and disbursements ledgers for accuracy.
- The Sheriff should periodically compare invoices to payments.
- The Sheriff should periodically compare the bank reconciliation to the balance in the checkbook. Any differences should be reconciled.

Sheriff's Response: I feel lack of help in Sheriff's office.

GRANT COUNTY
RANDY MIDDLETON, SHERIFF
COMMENTS AND RECOMMENDATIONS
For The Year Ended December 31, 2005
(Continued)

PRIOR YEAR:

The Sheriff Should Submit An Annual Settlement With The Fiscal Court For Approval

This comment was corrected in the current year.

The Sheriff Should Require Depository Institutions To Pledge Or Provide Sufficient Collateral To Protect Deposits

This comment has not been corrected and has been discussed with the Sheriff.

The Sheriff's Office Lacks Adequate Segregation Of Duties

This comment has not been corrected and is repeated in the current year.

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL
STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Darrell L. Link, Grant County Judge/Executive
Honorable Randy Middleton, Grant County Sheriff
Members of the Grant County Fiscal Court

Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards

We have audited the statement of revenues, expenditures, and excess fees - regulatory basis of the Grant County Sheriff for the year ended December 31, 2005, and have issued our report thereon dated May 23, 2006. The Sheriff's financial statement is prepared in accordance with a basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Grant County Sheriff's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statement and not to provide an opinion on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the entity's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statement. The reportable condition is described in the accompanying comments and recommendations.

- The Sheriff's Office Lacks Adequate Segregation Of Duties

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we consider the reportable condition described above to be a material weakness.

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Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards
(Continued)

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Grant County Sheriff's financial statement for the year ended December 31, 2005, is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matters that is required to be reported under Government Auditing Standards and which is described in the accompanying comments and recommendations.

- The Sheriff Should Spend Drug Forfeiture Account Monies For Allowable Purposes Only

This report is intended solely for the information and use of management and the Kentucky Governor's Office for Local Development and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,



Crit Luallen
Auditor of Public Accounts

Audit fieldwork completed -
May 23, 2006

